

City of Bloomfield Hills, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of Bloomfield Hills, Michigan

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Independent Auditor's Report

To the City Commission
City of Bloomfield Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bloomfield Hills, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of June 30, 2008 and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Commission
City of Bloomfield Hills, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bloomfield Hills, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moreau, PLLC

October 13, 2008

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Bloomfield Hills, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide general information about the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Government-wide Financial Statements

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the City's assets and liabilities. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenues and expenses, regardless of when cash is actually received or paid.

All of the City's basic services are included in governmental activities such as public safety, public works, and general administration, all of which are accounted for through the General Fund. Property taxes, state-shared revenues, charges for services, licenses and permits, and other revenues comprise the revenue for the governmental activities. Also included as governmental activities are the Major and Local Streets Funds, General Obligation Debt Fund, Budget Stabilization Fund, Drug Enforcement Fund, Water and Sewer Construction Fund, and Road Construction Fund.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's significant funds, not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of revenues and expenditures for particular purposes. Some funds are required by state law and bonding requirements. Other funds are established to control and manage money for particular purposes.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

The City has the following fund type:

Governmental Funds - All of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps the reader determine if there are more or fewer financial resources available to spend in the near future to finance the City's programs. In the annual financial statements, we refer to our funds as the General Fund, General Obligation Debt Fund, Water and Sewer Construction Fund, Road Construction Fund, and other nonmajor governmental funds.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2008:

- State-shared revenue reductions have been in the forefront of interest in making budget predictions over the past few years. State-shared revenues currently provide the City with \$278,766, which is stable as compared with fiscal year 2007.
- Property tax and related revenues increased from \$7,275,160 to \$7,507,241, or 3.2 percent, as compared to fiscal year 2007. This increase is due to an increase in the taxable value of the City.
- Interest income increased from \$524,676 in fiscal year 2007 to \$578,642 in fiscal year 2008, an increase of 10.3 percent. This increase is due to additional cash available for investment by the increase in fees in the Water and Sewer Fund and the Road Construction Fund as well as an increase in interest rates.
- Overall, General Fund revenues for fiscal year 2008 were \$16,701 under the amended budget.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in millions of dollars):

	Governmental Activities	
	2008	2007
Assets		
Current assets	\$ 10.6	\$ 11.7
Noncurrent assets	15.7	13.3
Total assets	26.3	25.0
Liabilities		
Current liabilities	0.8	0.7
Long-term liabilities	6.1	7.1
Total liabilities	6.9	7.8
Net Assets		
Invested in capital assets - Net of related debt	11.0	9.4
Restricted	4.9	6.2
Unrestricted	3.5	1.6
Total net assets	<u>\$ 19.4</u>	<u>\$ 17.2</u>

The City's combined net assets are \$19.4 million as compared to \$17.2 million for the prior year. This represents a 12.8 percent increase.

The bottom of the table shows the changes in net assets during the current year. As this is the fourth year of implementation for the revised reporting format, comparative data is supplied in this report.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the current year and in the prior year (in millions of dollars):

	Governmental Activities	
	2008	2007
Revenue		
Program revenue:		
Charges for services	\$ 0.9	\$ 0.8
Operating grants and contributions	0.3	0.3
Capital grants and contributions	1.3	1.2
General revenue:		
Property taxes	7.5	7.2
State-shared revenue	0.3	0.3
Unrestricted investment earnings	0.6	0.5
Franchise fees	0.1	0.1
Miscellaneous	0.1	0.1
Total revenue	11.1	10.5
Program Expenses		
General government	2.2	1.8
Public safety	4.4	4.2
Public works	2.1	2.0
Interest on long-term debt	0.3	0.1
Total program expenses	9.0	8.1
Change in Net Assets	\$ 2.1	\$ 2.4

Governmental Activities

As you read through the next several paragraphs, it is important to remember that governmental activities not only include the General Fund, but also the General Obligation Debt Fund, the Water and Sewer Construction Fund, the Road Construction Fund, and other nonmajor governmental funds accounts.

The City's governmental revenues totaled \$11.1 million, with the largest revenue source being property taxes. Property taxes represent \$7.5 million of total governmental revenues, which is approximately 69 percent of total governmental revenues. This percentage of total revenues is stable as compared to last year, and has been relatively consistent over the past several fiscal years.

During fiscal year 2008, the City received capital charge revenue of approximately \$850,000. This revenue will be set aside in the Water and Sewer Construction Fund and will be used to fund current and future improvements to the water and sewer lines infrastructure.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

All other revenues are received from many small revenue sources. For example, the City collected approximately \$584,000 from state sources, \$459,000 from permits, license fees, and charges, \$470,000 reimbursement from the 48th District Court, \$579,000 in interest earnings, and nearly \$529,000 in miscellaneous-type charges.

The Major and Local Streets Funds revenue (excluding interest and license and permits) totaled approximately \$294,000 and reflects Act 51 funds for our major and local streets. Act 51 funding has been fairly stable over the past three fiscal years. We are unaware of any significant changes at the state level that will negatively affect this revenue in the near future.

Typical to other communities in the area, a heavy reliance on property taxes continues to impact our budget projections. Future revenue projections will be affected by the limitations on property tax growth due to Proposal A and the possibility of declining state equalized values. Currently our taxable value is \$890 million and state equalized value (SEV) is \$1.083 billion. This represents a significant loss in tax dollars because taxes are based on taxable value, not SEV.

From an overall perspective, the City remains in good financial standing and takes pride in maintaining a AAA bond rating.

Capital Assets and Debt Administration

At the end of fiscal year 2008, the City has \$15.7 million invested in a wide range of capital assets, including land, buildings, equipment, roads, and water and sewer lines.

Debt of \$1.6 million is related to the debt service on storm system and sewer projects (including Evergreen-Farmington, Bloomfield Village CSO, and City of Bloomfield Hills CSO) mainly from the late 1980s, with debts retiring at staggered intervals between 2009 and 2117; \$2.0 million relates to the Building Authority bonds originating in 1998, maturing in 2009, with \$141,000 owing on two installment purchase agreements for a dump truck and a streetsweeper; that debt matures in stages beginning in 2009 through 2011. In 2007, the City borrowed \$3 million to begin a significant road repair and replacement program, which was approved by the City Commission in late 2006 and matures in 2018. The City is expected to take on further debt in 2010 and 2013 to complete the estimated \$10 million road improvements program. The City Commission chose to stagger the issuance of new debt, consistent with the payoff of old debt. The plan is to maintain a consistent level of principal and interest payments, so we will not have to increase the millage rate to pay for debt.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City administration and City Commission monitor and, if necessary, amend the budget to prevent expenditures in excess of budget as required by the State of Michigan Budget Act.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

It has been the City's history of monitoring the revenue and expenditures reports on a monthly basis to track the unfolding of each fiscal year. Expenditures have been allowed to grow provided that the revenues are available to support them. This approach has benefited the City from many different perspectives. It has allowed us to rebuild our financial position, pay for one-time large scale projects with cash, and provided the opportunity for retooling our operations.

Economic Factors and the Future

There are several economic factors that will continue to challenge the City. These include state revenue sharing, health insurance, pension costs, our overall millage rate, and state laws limiting the growth in property taxes. The 1978 Headlee Amendment and Proposal A passed in 1993 both limit growth to the rate of inflation. Headlee requires a rollback in the overall millage rate if total property values grow at a rate higher than inflation, and Proposal A limits increases in individual property tax assessments to the rate of inflation.

Because we are a service provider, the majority of our costs are related to active and retired personnel. Double-digit increases in our healthcare costs will continue to place a burden on our overall city expenditures as we continue to rely on our tax base to maintain services.

Other factors that may/will affect our financial future include the final fate of state-shared revenues, the potential for declining state equalized values, the Michigan Department of Environmental Quality's decisions relative to our sanitary sewer system, the future of storm water management, and infrastructure investments.

Contacting the City's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the City administration at 248.644.1520, and as always you are welcome to visit our website at www.bloomfieldhillsmi.net.

City of Bloomfield Hills, Michigan

Statement of Net Assets June 30, 2008

		Governmental Activities
Assets		
Cash and investments (Note 3)	\$	8,729,076
Restricted assets (Note 1)		965,053
Receivables:		
Customers		442,797
Delinquent personal property taxes		55,600
Due from other governmental units		92,373
Prepaid expense and other assets		271,144
Capital assets - Net (Note 4):		
Nondepreciable capital assets	\$ 3,302,030	
Depreciable capital assets - Net	<u>12,394,140</u>	<u>15,696,170</u>
Total assets		26,252,213
Liabilities		
Accounts payable		649,568
Accrued and other liabilities		140,873
Noncurrent liabilities (Note 6):		
Due within one year	1,540,970	
Due in more than one year	<u>4,547,765</u>	<u>6,088,735</u>
Total liabilities		<u>6,879,176</u>
Net Assets		
Invested in capital assets - Net of related debt		10,976,378
Restricted:		
PEG-related expenditures		106,483
Construction code activity (Note 2)		162,562
Streets and highways		1,530,177
Drug enforcement		768
Water and sewer capital expenditures		2,494,156
Road construction		605,941
Unrestricted		<u>3,496,572</u>
Total net assets	\$	<u><u>19,373,037</u></u>

City of Bloomfield Hills, Michigan

Statement of Activities Year Ended June 30, 2008

	Program Revenues				Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets - Primary Government
Functions/Programs					
Primary government -					
Governmental activities:					
General government	\$ 2,185,913	\$ 377,370	\$ -	\$ -	\$ (1,808,543)
Public safety	4,376,283	525,819	21,065	-	(3,829,399)
Public works	2,120,624	-	293,541	1,303,141	(523,942)
Interest on long-term debt	260,483	-	-	-	(260,483)
Total primary government	<u>\$ 8,943,303</u>	<u>\$ 903,189</u>	<u>\$ 314,606</u>	<u>\$ 1,303,141</u>	(6,422,367)
General revenues:					
Property taxes					7,507,241
State-shared revenues					278,766
Unrestricted investment earnings					578,642
Franchise fees					94,420
Miscellaneous					82,267
Total general revenues					<u>8,541,336</u>
Change in Net Assets					2,118,969
Net Assets - Beginning of year					<u>17,254,068</u>
Net Assets - End of year					<u>\$ 19,373,037</u>

City of Bloomfield Hills, Michigan

Governmental Funds Balance Sheet June 30, 2008

	General Fund	General Obligation Debt Fund	Water and Sewer Construction Fund	Road Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and investments (Note 3)	\$ 4,343,463	\$ 574,544	\$ 2,263,018	\$ -	\$ 1,548,051	\$ 8,729,076
Restricted assets (Note 1)	-	-	-	965,053	-	965,053
Receivables	203,245	-	295,152	-	-	498,397
Due from other funds (Note 5)	-	-	-	-	150,000	150,000
Due from other governmental units	44,294	-	-	-	48,079	92,373
Prepaid expenses and other assets	271,144	-	-	-	-	271,144
Total assets	\$ 4,862,146	\$ 574,544	\$ 2,558,170	\$ 965,053	\$ 1,746,130	\$ 10,706,043
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 161,257	\$ -	\$ 64,014	\$ 359,112	\$ 65,185	\$ 649,568
Accrued and other liabilities	83,024	-	-	-	-	83,024
Due to other funds (Note 5)	150,000	-	-	-	-	150,000
Deferred revenues	55,600	-	-	-	-	55,600
Total liabilities	449,881	-	64,014	359,112	65,185	938,192
Fund Balances						
Reserved for:						
PEG-related expenditures	106,483	-	-	-	-	106,483
Construction code activity (Note 2)	162,562	-	-	-	-	162,562
Road construction	-	-	-	605,941	-	605,941
Unreserved - Designated for:						
Compensated absences	310,450	-	-	-	-	310,450
Fire truck	320,000	-	-	-	-	320,000
Subsequent year's expenditures	542,000	-	-	-	-	542,000
Other postemployment benefits	1,000,000	-	-	-	-	1,000,000
Emergency management	150,000	-	-	-	-	150,000
Tri-party improvement	280,000	-	-	-	-	280,000
City road signs	50,000	-	-	-	-	50,000
Unreserved - Reported in:						
General Fund	1,490,770	-	-	-	-	1,490,770
Special Revenue Funds	-	-	-	-	1,680,945	1,680,945
Debt Service Fund	-	574,544	-	-	-	574,544
Capital Projects Funds	-	-	2,494,156	-	-	2,494,156
Total fund balances	4,412,265	574,544	2,494,156	605,941	1,680,945	9,767,851
Total liabilities and fund balances	\$ 4,862,146	\$ 574,544	\$ 2,558,170	\$ 965,053	\$ 1,746,130	
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and are not reported in the funds						15,696,170
Delinquent personal property taxes are expected to be collected over several years and are not available to pay for current year expenditures						55,600
Accrued interest payable is not due and payable in the current period and is not reported in the funds						(57,849)
Compensated absences are not due and payable in the current period and are not reported in the funds					\$ (403,890)	
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(5,684,845)	(6,088,735)
Net assets of governmental activities						\$ 19,373,037

City of Bloomfield Hills, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	General Obligation Debt Fund	Water and Sewer Construction Fund	Road Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue						
Property taxes	\$ 7,507,241	\$ -	\$ -	\$ -	\$ -	\$ 7,507,241
Licenses and permits	445,502	-	-	-	13,872	459,374
Federal sources	-	-	-	-	15,478	15,478
State sources:						
State-shared revenues	278,766	-	-	-	-	278,766
Act 51 highway	-	-	-	-	293,541	293,541
Other state sources	11,908	-	-	-	-	11,908
Capital charges	-	-	849,869	-	-	849,869
Charges for services	69,969	-	-	-	-	69,969
Fines and forfeitures - District Court	469,317	-	-	-	-	469,317
Other intergovernmental - Oakland County	-	-	350,000	-	-	350,000
Tap fees	-	-	89,400	-	-	89,400
Interest	78,423	56,113	202,093	99,088	142,925	578,642
Other	89,667	-	-	-	-	89,667
Total revenue	8,950,793	56,113	1,491,362	99,088	465,816	11,063,172
Expenditures						
General government	2,229,411	-	-	-	-	2,229,411
Public safety	3,755,099	-	-	-	5,868	3,760,967
Public works	574,328	-	277,909	-	395,598	1,247,835
48th District Court	319,664	-	-	-	-	319,664
Capital expenditures	503,418	-	601,705	2,336,262	-	3,441,385
Debt service	45,028	1,338,195	-	3,030	-	1,386,253
Total expenditures	7,426,948	1,338,195	879,614	2,339,292	401,466	12,385,515
Excess of Revenue Over (Under) Expenditures	1,523,845	(1,282,082)	611,748	(2,240,204)	64,350	(1,322,343)
Other Financing Sources (Uses)						
Transfers in (Note 5)	-	1,343,750	-	-	270,900	1,614,650
Transfers out (Note 5)	(1,567,650)	-	-	-	(47,000)	(1,614,650)
Proceeds from issuance of installment purchase obligation	79,055	-	-	-	-	79,055
Total other financing sources (uses)	(1,488,595)	1,343,750	-	-	223,900	79,055
Net Change in Fund Balances	35,250	61,668	611,748	(2,240,204)	288,250	(1,243,288)
Fund Balances - Beginning of year	4,377,015	512,876	1,882,408	2,846,145	1,392,695	11,011,139
Fund Balances - End of year	\$ 4,412,265	\$ 574,544	\$ 2,494,156	\$ 605,941	\$ 1,680,945	\$ 9,767,851

City of Bloomfield Hills, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds **\$ (1,243,288)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	3,332,660
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(934,561)
Gains from the sale of capital assets are reported as revenue in the governmental funds; the statement of activities records a gain or loss, included in the general government expense	(900)
Certain revenues reported in the statement of activities in the previous years did not provide current financial resources in the governmental funds until the current year	(1,948)
Proceeds acquired through an installment purchase obligation are recorded as other financing sources in governmental funds; the statement of activities records an addition to long-term debt	(79,055)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt	1,166,353
Interest expense is recorded when incurred in the statement of activities	(9,586)
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(110,706)

Change in Net Assets of Governmental Activities **\$ 2,118,969**

City of Bloomfield Hills, Michigan

Fiduciary Fund Statement of Assets and Liabilities June 30, 2008

Assets

Cash and cash equivalents	\$ 105,348
Receivables - Other	<u>212,147</u>

Total assets	<u><u>\$ 317,495</u></u>
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Liabilities - Refundable deposits	<u><u>\$ 317,495</u></u>
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City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Bloomfield Hills, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Bloomfield Hills, Michigan:

Reporting Entity

The City of Bloomfield Hills, Michigan is governed by an elected five-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

Blended Component Unit - The City's Building Authority is governed by a board that is appointed by the Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. There are currently no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, delinquent personal property taxes will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

General Obligation Debt Fund - The General Obligation Debt Fund is used to account for the annual payment of principal, interest, and expenses in connection with all long-term debt.

Water and Sewer Construction Fund - The Water and Sewer Construction Fund is used to account for money received from residents to be used for future construction of water and sewer infrastructure.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Road Construction Fund - The Road Construction Fund is used to account for the road repair and replacement project, for which bonds were issued to fund the project. The commission is looking at a 10-year plan to rehabilitate all City roads.

Additionally, the City reports the following fund type:

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its government-wide financial statements.

When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, it is the City's policy to first apply restricted resources.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2007 tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$890 million, on which taxes levied consisted of 8.30 mills for operating purposes. This resulted in \$7.4 million for operating. These amounts are recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value

Restricted Assets - The City has unspent bond proceeds of \$965,053 that is restricted to be used for future road construction.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Building and improvements	50 years
Machinery, equipment, and vehicles	5 to 20 years
Drain usage rights	50 years
Infrastructure	20 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is a liability for half of the unpaid accumulated sick leave since the City has a policy to pay half the amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative surplus - July 1, 2007		\$	161,942
Current year building permit revenue			356,422
Related expenses:			
Direct costs	\$	272,156	
Estimated indirect costs		83,646	355,802
Current year shortfall			620
Cumulative surplus - June 30, 2008		\$	<u>162,562</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated six banks for the deposit of its funds. Each financial intermediary, broker, or dealer that holds the City's funds must be provided with a copy of the investment policy and comply with the policy. The investment policy adopted by the City Commission in accordance with Public Act 196 of 1997 has authorized investment in all of the above securities. The City's deposits and investments are currently in compliance with its investment policy and statutory authority.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$4,342,662 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$512,891 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

Investment Type	Fair Value	Rating	Rating Organization
Bank investment pools - Comerica	\$ 5,391,779	AAA	S&P
Pooled investment - Oakland County	512,406	Not rated	N/A

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets

Capital asset activity of the City's governmental activities was as follows:

Governmental Activities	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 339,638	\$ -	\$ -	\$ 339,638
Construction in progress	266,490	2,832,235	(136,333)	2,962,392
Subtotal	606,128	2,832,235	(136,333)	3,302,030
Capital assets being depreciated:				
Land improvements	240,500	-	-	240,500
Buildings and improvements	6,717,366	27,552	-	6,744,918
Machinery, equipment, and vehicles	3,268,623	359,901	(50,982)	3,577,542
Drain usage rights	3,348,340	249,305	-	3,597,645
Infrastructure	12,342,640	-	-	12,342,640
Subtotal	25,917,469	636,758	(50,982)	26,503,245
Accumulated depreciation:				
Land improvements	114,238	12,025	-	126,263
Buildings and improvements	1,177,196	132,832	-	1,310,028
Machinery, equipment, and vehicles	2,292,910	231,847	(50,082)	2,474,675
Drain usage rights	1,120,540	83,226	-	1,203,766
Infrastructure	8,519,742	474,631	-	8,994,373
Subtotal	13,224,626	934,561	(50,082)	14,109,105
Net capital assets being depreciated	12,692,843	(297,803)	(900)	12,394,140
Net capital assets	\$ 13,298,971	\$ (270,251)	\$ (900)	\$ 15,696,170

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 121,178
Public safety	236,837
Public works	576,546
Total governmental activities	<u>\$ 934,561</u>

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Budget Stabilization Fund	General Fund	<u>\$ 150,000</u>

This balance results from the time lag between the dates payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	General Obligation Debt Fund	\$ 1,343,750
	Nonmajor governmental funds:	
	Major Streets Fund	100,000
	Local Streets Fund	<u>123,900</u>
	Total General Fund	1,567,650
Nonmajor governmental funds - Major Streets Fund	Nonmajor governmental funds - Local Streets Fund	<u>47,000</u>
	Total	<u>\$ 1,614,650</u>

The transfers from the General Fund to the General Obligation Debt Fund represent the use of unrestricted resources to service debt payments, in accordance with budgetary authorizations; the transfer from the General Fund to the Major Streets Fund and the Local Streets Fund represents the use of unrestricted resources to help finance future road projects; and the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues in accordance with Act 51.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
Evergreen-Farmington Bonds:						
Evergreen-Farmington Bonds:						
Amount of issue - \$12,500	3.70% -					
Maturing through 2010	4.85%	\$ 3,158	\$ -	\$ (1,033)	\$ 2,125	\$ 1,069
Evergreen-Farmington Amy Relief Sewers:						
Amount of issue - \$785,104	4.50% -					
Maturing through 2009	4.60%	107,738	-	(68,769)	38,969	38,969
Evergreen-Farmington Permanent Meter and Interceptor Rehabilitation:						
Amount of issue - \$785,104						
Maturing through 2009	2.31%	25,373	-	(7,735)	17,638	8,659
Road Construction Bonds:						
Amount of issue - \$3,000,000	3.75% -					
Maturing through 2018	5.25%	3,000,000	-	-	3,000,000	-
Oakland County CSO Drain Bonds:						
Bloomfield Village CSO Drainage Bonds, Series 1994 A:						
Amount of issue - \$161,233						
Maturing through 2017	2.00%	85,631	-	(7,715)	77,916	9,000
Bloomfield Village CSO Drainage District Refunding Bonds, Series 2001A:						
Amount of issue - \$141,432						
Maturing through 2017	5.14%	92,060	-	(7,715)	84,345	9,000
Bloomfield Village CSO Drainage District Refunding Bonds, Series 2001B:						
Amount of issue - \$468,013						
Maturing through 2017	5.14%	322,210	-	(23,401)	298,809	28,287
City of Bloomfield Hills CSO Drainage District Drain Refunding Bonds, Series 2003:						
Amount of issue - \$1,125,000	1.25% -					
Maturing through 2017	3.38%	899,885	-	(90,000)	809,885	85,000

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities (Continued)						
State Revolving Fund Loan						
Bloomfield Hills - Michigan State Revolving						
Loan Fund:						
Amount of issue - \$250,000						
Maturing through 2015	2.25%	\$ 95,000	\$ -	\$ (10,000)	\$ 85,000	\$ 15,000
Building Authority Bonds:						
1998 Building Authority Bonds:						
Amount of issue - \$7,100,000						
Maturing through 2009	3.75%	2,000,000	-	(900,000)	1,100,000	1,100,000
2006 Installment Purchase Obligation -						
Dump truck:						
Amount of issue - \$97,835						
Maturing through 2009		58,579	-	(18,446)	40,133	19,506
2006 Installment Purchase Obligation -						
Sweeper:						
Amount of issue - \$124,000						
Maturing through 2011		82,509	-	(19,060)	63,449	20,111
2008 New Holland Tractor Obligation:						
Amount of issue - \$43,660						
Maturing through 2011	8.35%	-	43,660	-	43,660	13,890
2008 Caterpillar Backhoe Obligation:						
Amount of issue - \$35,395						
Maturing through 2010	5.89%	-	35,395	(12,479)	22,916	12,479
Total bonds and notes		6,772,143	79,055	(1,166,353)	5,684,845	1,360,970
Other long-term obligations - Employee						
compensated absences		293,184	769,150	(658,444)	403,890	180,000
Total governmental activities		<u>\$ 7,065,327</u>	<u>\$ 848,205</u>	<u>\$ (1,824,797)</u>	<u>\$ 6,088,735</u>	<u>\$ 1,540,970</u>

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 1,360,970	\$ 194,818	\$ 1,555,788
2010	424,036	160,487	584,523
2011	382,245	144,572	526,817
2012	415,916	124,199	540,115
2013	420,802	114,126	534,928
2014	416,573	98,811	515,384
2015	471,316	82,299	553,615
2016	457,087	64,637	521,724
2017	435,900	44,902	480,802
2018	400,000	26,500	426,500
2019	500,000	9,500	509,500
Total	<u>\$ 5,684,845</u>	<u>\$ 1,064,851</u>	<u>\$ 6,749,696</u>

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority (MMRMA) state pool for claims related to general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 8 - Defined Benefit Pension Plan

Plan Description - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all public safety union employees and department of public works (DPW) union employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 1.7 percent to 5 percent of gross wages.

Annual Pension Cost - For the year ended June 30, 2008, the City's annual pension cost of \$729,862 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, (b) projected salary increases of 4.5 percent to 8.40 percent per year, and (c) the assumption that benefits will increase 2.5 percent per year annually after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis for the general administration, public works, and executive divisions; and on an open basis for the public safety dispatch, public safety officers, public safety command, and executive divisions. The remaining amortization period is between 10 and 30 years.

	Fiscal Year Ended June 30		
	2006	2007	2008
Annual pension costs (APC)	\$ 533,880	\$ 569,976	\$ 729,862
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2008

Note 8 - Defined Benefit Pension Plan (Continued)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/05	\$ 14,703,966	\$ 23,099,541	\$ (8,395,575)	63.65	\$ 1,892,117	443.71
12/31/06	15,171,547	23,994,143	(8,822,596)	63.23	1,788,949	493.17
12/31/07	15,649,890	25,443,447	(9,793,557)	61.50	2,112,739	463.55

Note 9 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time nonunion employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by a City Commission approved resolution, the City contributes 1 percent of the employees' gross earnings for nonunion employees. Nonunion employees also receive a 15 percent contribution toward their deferred compensation plan, for a total employer contribution to their retirement plans of 16 percent. Nonunion employees are not required but many elect to make contributions to the plan. Nonunion employees' accounts are fully vested immediately.

The City's total non-union payroll during the current year was \$362,890. The current year contribution was calculated based on covered payroll, resulting in an employer contribution of \$3,629.

Note 10 - Other Postemployment Benefits

The City provides health care to all full-time employees upon retirement, in accordance with labor contracts. Currently, 36 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; this totaled \$660,926. These benefits are paid annually from the General Fund.

Note 10 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Required Supplemental Information

City of Bloomfield Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenue				
Property Taxes				
Real and personal property taxes	\$ 7,386,094	\$ 7,386,094	\$ 7,395,404	\$ 9,310
Delinquent personal property taxes	7,000	7,000	5,988	(1,012)
Tax penalties	60,000	60,000	105,849	45,849
Total property taxes	7,453,094	7,453,094	7,507,241	54,147
Licenses and Permits				
Building permits	185,000	185,000	260,872	75,872
Electrical, heating, and plumbing permits	85,000	85,000	89,050	4,050
Cable television franchise fee	65,000	65,000	84,420	19,420
Other	6,250	6,250	11,160	4,910
Total licenses and permits	341,250	341,250	445,502	104,252
State Sources				
State-shared revenue	275,000	275,000	278,766	3,766
Other	8,400	8,400	11,908	3,508
Total state sources	283,400	283,400	290,674	7,274
Charges for Services	70,250	70,250	69,969	(281)
Fines and Forfeitures - District Court	400,000	400,000	469,317	69,317
Interest	375,000	375,000	78,423	(296,577)
Other Revenue				
Sale of assets	5,000	5,000	14,056	9,056
Other	39,500	39,500	75,611	36,111
Total other revenue	44,500	44,500	89,667	45,167
Total revenue	8,967,494	8,967,494	8,950,793	(16,701)

City of Bloomfield Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures				
General Government				
City Commission	\$ 5,350	\$ 5,350	\$ 3,074	\$ 2,276
City manager	114,500	117,035	127,533	(10,498)
Assessor	55,000	55,000	46,556	8,444
Attorney	235,000	250,000	251,230	(1,230)
Clerk	86,900	89,892	80,270	9,622
Treasurer	83,575	88,166	74,699	13,467
General administration	1,250,935	1,250,952	1,202,101	48,851
Building and grounds	192,800	209,152	206,038	3,114
Building and planning	222,050	254,190	137,630	116,560
Engineering	150,000	150,000	80,780	69,220
Library	25,000	25,000	19,500	5,500
Total general government	2,421,110	2,494,737	2,229,411	265,326
Public Safety	3,615,652	3,762,192	3,755,099	7,093
Public Works	506,335	577,818	574,328	3,490
48th District Court	430,000	430,000	319,664	110,336
Capital Outlay	381,460	445,960	424,363	21,597
Operating Transfers Out	1,567,908	1,567,908	1,567,650	258
Debt Service	45,029	45,029	45,028	1
Total expenditures	8,967,494	9,323,644	8,915,543	408,101
Excess of Revenue Over (Under)				
Expenditures	-	(356,150)	35,250	391,400
Fund Balance - Beginning of year	4,377,015	4,377,015	4,377,015	-
Fund Balance - End of year	<u>\$ 4,377,015</u>	<u>\$ 4,020,865</u>	<u>\$ 4,412,265</u>	<u>\$ 391,400</u>

City of Bloomfield Hills, Michigan

Notes to Required Supplemental Information June 30, 2008

Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedule for the General Fund is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balances):

	General Fund	
	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 8,950,793	\$ 7,426,948
Capital assets acquired with installment debt	-	(79,055)
Operating transfers budgeted as revenue and expenditures on budget statement	-	1,567,650
Amounts per budget statement	<u>\$ 8,950,793</u>	<u>\$ 8,915,543</u>

Note 2 - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except the following:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Reimbursement of expenditure has been recorded as an operating transfer in rather than a decrease to related expenditure. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner.
- Capital assets acquired with installment debt are reported net of the debt proceeds.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

City of Bloomfield Hills, Michigan

Notes to Required Supplemental Information June 30, 2008

Note 2 - Budgetary Information (Continued)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before April 30, the finance director/treasurer and the city manager prepare a proposed operating budget for the fiscal year commencing July 1 and submit it to the City Commission. The budget must be adopted through a passage of a budget resolution no later than May 31.
2. Public hearings are conducted to obtain citizen comments.
3. The legislative budget is adopted by department and fund on a departmental basis. Line item detail is provided as a general guideline. Throughout the year, the Commission receives the requests to amend the activity budget. All amendments must be approved by a vote of the City Commission. Changes in line items within an activity may be made and approved by the finance director/treasurer.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Bloomfield Hills, Michigan did not incur any expenditures that were significantly in excess of budgetary amounts.

Other Supplemental Information

City of Bloomfield Hills, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Streets	Local Streets	Budget Stabilization	Drug Enforcement	
Assets					
Cash and investments	\$ 765,497	\$ 781,786	\$ -	\$ 768	\$ 1,548,051
Due from General Fund	-	-	150,000	-	150,000
Due from other governmental units	32,677	15,402	-	-	48,079
Total assets	<u>\$ 798,174</u>	<u>\$ 797,188</u>	<u>\$ 150,000</u>	<u>\$ 768</u>	<u>\$ 1,746,130</u>
Liabilities and Fund Balances					
Liabilities - Accounts payable	\$ 51,396	\$ 13,789	\$ -	\$ -	\$ 65,185
Fund Balances - Unreserved	746,778	783,399	150,000	768	1,680,945
Total liabilities and fund balances	<u>\$ 798,174</u>	<u>\$ 797,188</u>	<u>\$ 150,000</u>	<u>\$ 768</u>	<u>\$ 1,746,130</u>

City of Bloomfield Hills, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2008

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Major Streets	Local Streets	Budget Stabilization	Drug Enforcement	
Revenue					
License and permits	\$ 3,607	\$ 10,265	\$ -	\$ -	\$ 13,872
Federal sources	-	-	-	15,478	15,478
State sources	199,546	93,995	-	-	293,541
Interest income	68,427	74,043	-	455	142,925
Total revenue	271,580	178,303	-	15,933	465,816
Expenditures					
Public safety	-	-	-	5,868	5,868
Public works	156,246	229,146	-	10,206	395,598
Total expenditures	156,246	229,146	-	16,074	401,466
Excess of Revenue Over (Under) Expenditures	115,334	(50,843)	-	(141)	64,350
Other Financing Sources (Uses)					
Transfers in	100,000	170,900	-	-	270,900
Transfers out	(47,000)	-	-	-	(47,000)
Total other financing sources (uses)	53,000	170,900	-	-	223,900
Net Change in Fund Balances	168,334	120,057	-	(141)	288,250
Fund Balances - Beginning of year	578,444	663,342	150,000	909	1,392,695
Fund Balances - End of year	\$ 746,778	\$ 783,399	\$ 150,000	\$ 768	\$ 1,680,945

City of Bloomfield Hills, Michigan

Report to the City Commission

June 30, 2008



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To the City Commission
City of Bloomfield Hills, Michigan

We have recently completed our audit of the basic financial statements of City of Bloomfield Hills, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following report on internal control, results of the audit, and other recommendations and informational comments which impact the City:

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We are grateful for the opportunity to be of service to the City of Bloomfield Hills, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 13, 2008

Report on Internal Control

October 13, 2008

To the City Commission
City of Bloomfield Hills, Michigan

Dear Commission Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Bloomfield Hills, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Bloomfield Hills, Michigan's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

To the City Commission
City of Bloomfield Hills, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

- The City has a system in place to track the retroactive wage activity. However, it does not have a system in place to ensure that when the retroactive wages are paid out, the liability is reversed and expenditures are not recorded twice in the general ledger. As a result, an audit entry was proposed by Plante & Moran, PLLC and posted by the City. Prior to the recording of this entry, salaries and wage expense and payroll liabilities were both overstated by an amount deemed to be material to the General Fund. We recommend the City implement a process to ensure the proper recording of these amounts in the future.

This communication is intended solely for the information and use of management, the City Commission, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver



Pamela L. Hill

Results of the Audit

To the City Commission
City of Bloomfield Hills, Michigan

We have audited the financial statements of the City of Bloomfield Hills, Michigan for the year ended June 30, 2008 and have issued our report thereon dated October 13, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 28, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Bloomfield Hills, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 30, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Bloomfield Hills, Michigan are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2007-2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

To the City Commission
City of Bloomfield Hills, Michigan

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following was detected as a result of the audit procedures and corrected by management:

- The City has a system in place to track the retroactive wage activity. However, it does not have a system in place to ensure that when the retroactive wages are paid out, the liability is reversed and expenditures are not recorded twice in the general ledger. As a result, an audit entry was proposed by Plante & Moran, PLLC and posted by the City. Prior to the recording of this entry, salaries and wage expense and payroll liabilities were both overstated by an amount deemed to be material to the General Fund. We recommend the City implement a process to ensure the proper recording of these amounts in the future.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the City Commission
City of Bloomfield Hills, Michigan

This information is intended solely for the use of the City Commission and management of the City of Bloomfield Hills, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Leslie J. Pulver". The script is cursive and fluid.

Leslie J. Pulver

A handwritten signature in black ink that reads "Pamela L. Hill". The script is cursive and fluid.

Pamela L. Hill

Other Recommendations/Informational

Other Recommendations

Cash

Cash Receipt Balancing and Deposits - We noted during our review of the City's internal control procedures that the finance director reviews the daily deposits prepared by the accounting clerk, occasionally collects cash, posts the journal entry related to daily cash receipts to the general ledger, takes the deposits to the bank, and prepares the monthly bank reconciliation. As a result of this lack of segregation, subsequent to year end, the City has changed its procedures over cash and now the finance director no longer takes the daily deposit to the bank nor collects cash.

Bank Reconciliations - During the audit, we noted that the City's bank reconciliations were reconciled each month within an immaterial amount and May and June 2008 were completely reconciled with no differences. As in the prior years, due to the size of the City's staff and the responsibilities of the finance director, she was not able to spend more time on the bank reconciliations in order to completely reconcile the bank accounts each month. In order to further enhance internal controls over the accuracy of cash, we suggest that all reconciling items be specifically identified on the bank reconciliation along with a description of the item and how the item was ultimately resolved. It is our understanding that the City implemented procedures subsequent to year end to ensure complete reconciliation over cash accounts.

Building Permit Revenue - During our audit testing, we reviewed contractor files. Based on that testing, we would like to commend the City for the actions taken during the year to ensure that the Commission-approved rates were being charged for building permits. However, we were unable to review the City's support for the square footage measurements used to compute the building permit revenue. While it appeared that the building inspector had a system to appropriately measure the square footage, the documentation of the details was not consistently maintained in the contractor files. We encourage the building department to maintain documentation in the contractor files which support the square footage computations.

Check Endorsements - During payroll testing for the month of November, we noted that all manual payroll checks issued on the pay date November 21, 2007 contained three signatures from City administrative employees. It is our understanding that the City's policy is that each check will contain two administrative employee signatures and one commissioner signature. Although the City has other controls in place to offset the risk associated with not obtaining a commissioner signature, we encourage consistent compliance with the City's internal policies.

Purchase Orders - During our audit, we noted inconsistent use of purchase orders. Upon further review and inquiry, it does not appear that the City has a formal PO policy. Most communities do not use a formal PO system as they feel the extra work is not commensurate with the benefit; however, we encourage the City to include in its policy that department heads take responsibility to verify that there is "room in the budget" for the purchases that they are requesting. This effort should be documented by a signature and date by the department head when the order is placed.

City of Bloomfield Hills, Michigan

Informational (Continued)

Retiree Healthcare Benefits and GASB No. 45 - The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local governmental units in recognizing the cost of retiree health care and other non-pension postemployment benefits. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of an employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010. While the City has designated \$1,000,000 to begin funding some of its obligation for retiree health care, like most all other governmental units, it is not actuarially funding this liability like a pension system. These new standards allow the City to fund the determined actuarial accrued liability for benefits provided and earned to date over 30 years. This new pronouncement could have a significant effect on the City of Bloomfield Hills if the City intends to actuarially fund this obligation. We know that the City is aware of this pronouncement. Now that the City's union negotiations are substantially complete, we recommend that the City follow through with its plans to complete the actuarial evaluation of this benefit obligation to fully understand the dollar implication to the City's budget.

Long-term Financial Planning - The City will most likely begin to experience pressure on its fund balance due to the property tax limitations impacting mature communities, state-shared revenue decreases, and required prefunding of retiree health care. We recommend that the City consider preparing a five-year financial forecast to estimate the City's fund balance in the coming years. A forecast can be invaluable as a management tool for analyzing future spending and its cumulative impact.

City of Bloomfield Hills, Michigan

Informational (Continued)

Revenue Sharing

The governor released her proposal of the State's fiscal year 2009 budget (for the year ending September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ending September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in fiscal year 2007. This proposal was presented to the governor on July 25 and is awaiting her signature.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% Change
Cities, villages, and townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	<u>404.920</u>	<u>392.050</u>	<u>406.933</u>	<u>3.80%</u>
Total cities, villages, and townships	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	n/a
Total revenue sharing	<u>\$ 1,070.900</u>	<u>\$ 1,074.830</u>	<u>\$ 1,085.319</u>	<u>0.98%</u>

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in fiscal year 2009 to equal the total of constitutional and statutory revenue sharing received in fiscal year 2008, plus an additional payment equal to 2 percent of the fiscal year 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for fiscal year 2009 will be identical to the amounts received in fiscal year 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

City of Bloomfield Hills, Michigan

Informational (Continued)

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. The City will need to carefully determine the impact of the current environment on its budget.

The City should also keep in mind that many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have relearned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it re-connects with market values).

We would like to thank the Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.